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The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military
Readiness
Committee on National Security
House of Representatives

Dear Mr. Chairman:

This report responds to a request by the former Chairman, Subcommittee on Readiness, House Committee on Armed Services, that we determine whether the Department of Defense can provide efficient and effective defense transportation in a changing national security environment. The report contains recommendations to the Secretary of Defense concerning the organization of the U.S. Transportation Command and its component commands—the Military Traffic Management Command, the Military Sealift Command, and the Air Mobility Command.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Commander-in-Chief, U.S. Transportation Command; and the Director of the Office of Management and Budget.

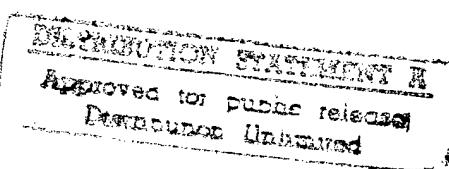
Please contact me at (202) 512-4300 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix V.

Sincerely yours,



Henry L. Hinton, Jr.
Assistant Comptroller General

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Executive Summary

Purpose

A number of studies since World War II have found that defense traffic management processes are fragmented and inefficient, reflecting the conflicts and duplication inherent in a traffic management organizational structure consisting of multiple transportation agencies, each with separate service and modal responsibilities. As a result, various actions have been taken to move functions from one transportation agency to another and improve military transportation effectiveness. In 1987, the Secretary of Defense, recognizing the need for additional improvements, established the U.S. Transportation Command (USTRANSCOM) to unify defense transportation under a single manager during war, contingencies, and exercises. In 1992, the Secretary expanded USTRANSCOM's role to include peacetime transportation.

The former Chairman of the Subcommittee on Readiness, House Committee on Armed Services, asked GAO to determine whether the Department of Defense (DOD) can provide efficient and effective defense transportation in a changing national security environment. Specifically, GAO's objectives were to determine (1) whether DOD is providing cost-effective and efficient transportation, (2) what factors drive transportation costs, and (3) whether any actions are necessary to ensure a successful reengineering of defense transportation that will improve efficiency and reduce costs.

Background

As the single DOD manager of all defense transportation services, USTRANSCOM executes its mission through three component commands—the Army's Military Traffic Management Command (MTMC), for land transportation and port operations; the Navy's Military Sealift Command (MSC), for sea transport; and the Air Force's Air Mobility Command (AMC), for air transport. Within this report, defense transportation refers to common-user transportation, defined by DOD as transportation and transportation services provided on a common basis for two or more DOD agencies and, as authorized, non-DOD agencies.

USTRANSCOM's responsibilities include financial management of all defense transportation. It operates under the Defense Business Operations Fund (DBOF) system of financial management. Under this concept, DOD customers place orders with the component commands, which then contract for the services and/or provide the services using their own resources. In turn, the component commands charge customers for their services. Customers predominately use funds from their operations and maintenance appropriations to reimburse the component commands. The

component commands use these reimbursements to pay their suppliers or to fund the cost of expending in-house resources.

In fiscal year 1994, USTRANSCOM and its components paid approximately \$5.6 billion to provide defense transportation services. These costs included purchased transportation and administrative and support costs incurred by USTRANSCOM and its component commands.

Results in Brief

Defense transportation costs are substantially higher than necessary. DOD customers frequently pay prices for transportation services that are double or triple the cost of the basic transportation. For example, customers may pay MTMC and MSC \$3,800 to arrange movement of a container load of cargo by commercial carriers from California to Korea; however, DOD is charged only \$1,250 by the commercial carrier for this service.

Key factors driving these higher costs are USTRANSCOM's fragmented and inefficient organizational structure and management processes, and the need to maintain a mobilization capability. Separate processes are a product of separate commands. Much of defense cargo today moves intermodally, by air, land, and sea transport. However, USTRANSCOM retains an outdated and inefficient, modally oriented, organizational structure, with many collocated facilities. Each separate component command incurs operational and support costs. Customers receive bills from each component command for each mode of transportation, rather than a single intermodal bill from only one component. Separate billing systems are inefficient, adding people and cost, and confusing to customers who pay for the inefficiencies. Salaries and wages alone for the commands in fiscal year 1994 were more than \$1 billion. Another factor driving higher costs is the need to maintain a mobilization capability. For example, USTRANSCOM maintains an extensive water port structure, employing more than 1,200 people, at a cost in fiscal year 1994 of over \$70 million. The ports are largely unused during peacetime because most cargo moves commercially. However, the port facilities do provide capacity that may be needed for a wartime surge. DOD's guidance for handling the cost of maintaining a mobilization capability does not cover all situations in which USTRANSCOM components charge their customers for costs that appear to be for mobilization requirements.

While DOD has recently begun reengineering the defense transportation system to improve its processes and reduce costs, it is not concurrently looking at how the organizational structure should be redesigned. It will

address organizational structure only after the process changes have been completed. GAO's work shows that the inefficiency of the organizational structure has been a long-standing issue in addressing the effectiveness of defense transportation. Waiting to address this issue until process improvements are made will likely represent a significant barrier to achieving the full benefits of the reengineering efforts.

Principal Findings

Defense Transportation Costs Are High

Customers using defense transportation services pay substantially more than the component commands do for basic commercial transportation. GAO developed a number of examples to show the disparity between what USTRANSCOM pays for commercial transportation services it procures and what MSC and MTMC charge their customers. GAO focused its work on MTMC and MSC as examples because they basically have similar organizational structures. However, while the examples do not specifically address AMC, GAO notes that AMC does have staff performing transportation functions similar to MTMC and MSC such as shipment routing and billing.

At the time of GAO's review, customers requesting basic containerized water transportation from the U.S. East Coast to Europe were charged double the underlying ocean carrier costs. For shipments from the U.S. West Coast to Japan and Korea, customers were charged nearly triple the underlying costs. For high-volume military shipping routes from interior points in the United States to interior points overseas, customers were sometimes charged double the underlying carrier costs.

Fragmented Traffic Management Processes, Modally Oriented Organizational Structure, and Mobilization Costs Are Major Factors Driving Higher Transportation Costs

Higher defense transportation costs are driven by process fragmentation, duplication, and overlap within the component commands and the need to maintain mobilization capability. Transportation processes—such as rate negotiation, shipment routing, cargo documentation, and financial management—are fragmented, resulting in multiple hand offs of information, extensive checking, and control. A DOD customer's request for overseas defense transportation services may require as many as five separate units' actions within MTMC and MSC to obtain the needed service to move a single shipment. The customer is often billed by five separate activities within the component commands to reimburse the components for their specific modal services.

Further, separate organizations require separate staffs and separate supporting infrastructures, the costs of which are ultimately included in customer charges. For example, USTRANSCOM's personnel costs for salaries and wages in fiscal year 1994 were about \$1.2 billion, or about 20 percent of its expenses. GAO's analysis showed that, many times, people of two or more components, performing identical functions, are located at the same sites.

Lastly, costs to maintain a transportation mobilization capability also drive higher transportation costs. For example, MTMC's extensive port structure, supported by more than 1,200 staff, costing over \$70 million in fiscal year 1994, provides a mobilization capability that may not be necessary to move cargo during peacetime. The ports are largely unused during peacetime because cargo moves by commercial carriers through commercial ports. Additionally, MSC, for some high-volume shipping routes, often uses other than the low-cost carrier to maintain a mobilization capability. Ultimately, USTRANSCOM's customers pay for maintaining this capability through the rates they are charged by MTMC and MSC. Although DOD policy mandates that direct appropriation funding be used for maintaining capability to expeditiously respond to mobilization conditions, DOD's guidance does not cover all situations in which USTRANSCOM components charge their customers for costs that appear to be for mobilization requirements.

Reengineering Efforts Must Integrate Long-standing Organizational Issues to Achieve Optimum Results

A long-standing concern—the defense transportation system's organizational structure and the issues of duplication and overlap inherent in it—is interfering with DOD's ability to successfully reengineer the transportation system and achieve optimum results. The existing component command structure has resulted in separate and isolated transportation processes along service lines and perpetuated inefficient transportation processes. Given the history of reluctance to change the organizational structure, it is essential for DOD to consider organizational structure changes as an integral part of reengineering its business processes.

Over the years, studies have recommended unifying traffic management in one organization to improve defense transportation and reduce costs. The recommendations were not implemented because of opposition from the component commands, the services, the Joint Chiefs of Staff, or the Congress. Even after its designation as the single DOD manager of defense transportation during peace and war, USTRANSCOM has retained the same component command structure that existed prior to its establishment.

In 1994, a USTRANSCOM study found that the defense transportation system continues to be replete with redundant organizational structure and inefficient and costly processes. As a result, USTRANSCOM and the Office of Secretary of Defense are taking steps to reengineer the defense transportation system. Both efforts include actions to improve and consolidate fragmented processes such as procurement and financial management. However, both efforts postpone any actions related to organizational structure issues until after process changes are completed. By delaying organizational structure changes, DOD runs the risk of superimposing reengineered processes on a fragmented, inefficient, and costly component command organizational structure. If these reengineering efforts integrate processes and organizational structure issues, DOD's ability to successfully improve efficiency and reduce costs will be significantly enhanced.

Recommendations

GAO recommends that the Secretary of Defense ensure that the defense transportation reengineering efforts simultaneously address process and organizational structure improvements. Specifically, the reengineering efforts should confront, at a minimum,

- the need for separate traffic management component command headquarters staff,
- the consolidation of separate field subordinate command traffic management staff, and
- then, the elimination of all remaining duplicative field-based subordinate command support staff.

Additionally, GAO recommends that the Secretary clarify which USTRANSCOM mobilization costs should be passed along to its customers. The amounts and purpose of any such costs should be contained in transportation component command annual financial statements and in the budget justification statements submitted annually to the Congress.

Agency Comments and GAO's Evaluation

DOD provided written comments on a draft of this report. It generally agreed with the report's findings and recommendations. DOD acknowledged the difference between the defense transportation system and private industry charges, as well as the direct impact defense transportation business processes have on the charges DOD customers pay. DOD attributed the difference in part to readiness/mobilization and overhead costs, and the fact that billing rates are established 18 months

prior to budget execution. DOD said it is addressing these problems in an ongoing defense transportation reengineering initiative.

DOD stated that it is pursuing the objectives of the report's recommendations as part of its' reengineering initiative. DOD explained that in a May 3, 1995, memorandum, the Deputy Secretary of Defense directed the Under Secretary of Defense (Acquisition and Technology) to reengineer defense transportation processes. In response to the memorandum, the Under Secretary established a task force to develop a Transportation Reengineering Action plan. The plan, completed on June 30, 1995, addressed four major initiatives—developing a transportation vision, reengineering transportation acquisition processes, reengineering transportation financial management processes, and assessing the infrastructure required to support the proposed reengineered processes. The plan will also address handling readiness/mobilization costs. The first initiative, developing a transportation vision, was completed October 25, 1995.

DOD stated that the goal of the reengineering effort is to create a joint, global, seamless, intermodal transportation system that eliminates and reduces infrastructure. Based on GAO's preliminary review of the plan, it agrees with the plan's goals including a review of the handling of readiness/mobilization costs, but notes that previous DOD studies recommending reductions in defense transportation infrastructure have not always been fully implemented. In this regard, GAO plans to monitor DOD's implementation of its plan.

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Abbreviations

AMC	Air Mobility Command
CONUS	Continental United States
DBOF	Defense Business Operations Fund
DBOF-T	Defense Business Operations Fund-Transportation
DOD	Department of Defense
GAO	General Accounting Office
MSC	Military Sealift Command
MTMC	Military Traffic Management Command
USTRANSCOM	U. S. Transportation Command

Introduction

The U.S. Transportation Command (USTRANSCOM) was created in 1987 to unify defense transportation under a single manager during war, contingencies, and exercises. In 1992, the Secretary of Defense directed that USTRANSCOM's mission be expanded to provide air, land, and sea transportation in time of peace and war.

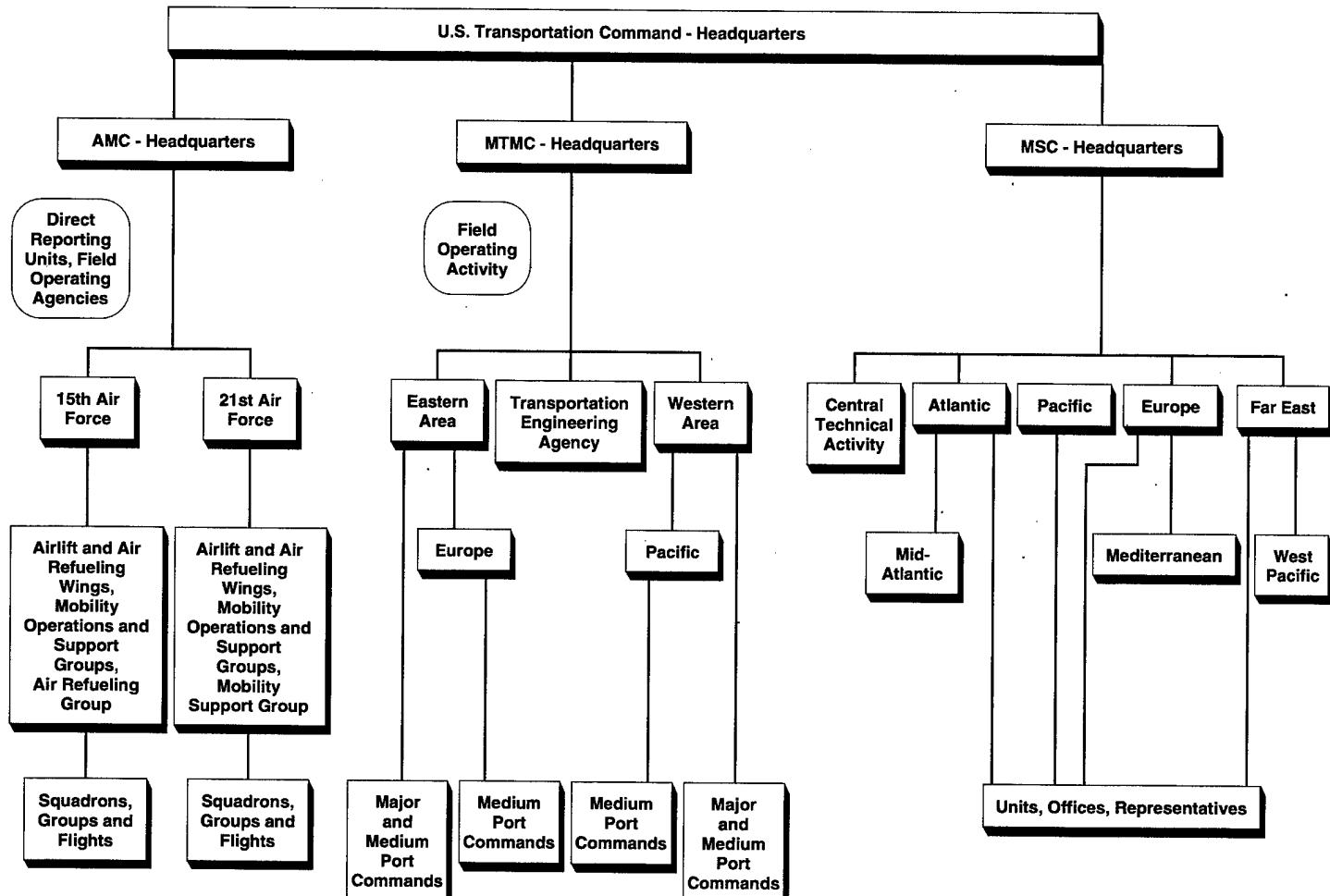
USTRANSCOM and Component Command Responsibilities and Organizational Structure

The mission of USTRANSCOM is to provide air, land, and sea transportation for DOD, both in time of peace and war. USTRANSCOM executes its mission through the three transportation component commands—Military Traffic Management Command (MTMC), Military Sealift Command (MSC), and Air Mobility Command (AMC). The responsibilities of each of the component commands are as follows:

- MTMC, the DOD manager for traffic management, land transportation, ocean terminals, and intermodal container management, manages freight movement, personal property shipment, and passenger traffic worldwide, operates water terminals throughout the world, and monitors traffic movements through all terminals.
- MSC, the DOD manager for sealift, is a ship operator and contracting agency for commercial shipping necessary to deliver cargo and petroleum worldwide and manages the Afloat Prepositioning Force that is used for forward deployment and early on-site availability of supplies and equipment.
- AMC, the DOD manager for airlift, is an airlift operator and the contracting agency for commercial augmentation airlift for wartime deployment of fighting forces and support of peacetime activities.

Figure 1.1 shows that the organizational structure of USTRANSCOM is divided into three separate transportation component commands: AMC, MTMC, and MSC.

Figure 1.1: Organizational Structure of USTRANSCOM



Source: USTRANSCOM, AMC, MTMC, and MSC mission directives.

Financial Management

USTRANSCOM is also the DOD financial manager for all defense transportation¹ in peace and war and is responsible for managing the transportation portion of the Defense Business Operations Fund (DBOF) as of October 1, 1992. The portion of DBOF attributable to transportation is called

¹Within this report, defense transportation refers to common-user transportation, defined by DOD as transportation and transportation services provided on a common basis for two or more DOD agencies and, as authorized, non-DOD agencies.

DBOF-transportation (DBOF-T). Through DBOF-T, the component commands establish the rates they charge customers for services that are rendered through the defense transportation system. These rates are intended to cover all the costs of providing services, including the cost of overhead, such as USTRANSCOM headquarters' operating costs. Customers pay for transportation services and the associated overhead through their appropriated funds.

DBOF guidance requires that USTRANSCOM recover its total costs from its customers, including total operating costs for all organizations. However, DBOF policy requires that the prices customers pay for transportation services are to reflect peacetime operating costs only. Mobilization costs are to be funded through direct appropriations.

Objectives, Scope, and Methodology

The former Chairman of the Subcommittee on Readiness, House Committee on Armed Services, asked us to determine whether the Department of Defense (DOD) can provide efficient and effective defense transportation in a changing national security environment. Specifically, our objectives were to determine (1) whether DOD is providing cost-effective and efficient transportation, (2) what factors drive transportation costs, and (3) whether any actions are necessary to ensure a successful reengineering of defense transportation that will improve efficiency and reduce costs.

To determine whether DOD is providing cost-effective and efficient transportation and to identify what factors drive transportation costs, we analyzed data on the current USTRANSCOM and component command structure including costs and number of DOD transportation personnel. We also analyzed staffing and operational data for organizations within both the USTRANSCOM headquarters and the component commands. In addition, we analyzed (1) current cost and billing data to identify trends and (2) DBOF-T data to determine how defense transportation costs are charged back to customers. With regard to customer prices, we compared what the components were charging their customers and what the components were paying for the underlying transportation. In doing so, we analyzed a number of representative shipments made through MTMC and MSC. We traced the history of USTRANSCOM and the component command structure, including reviews of prior presidential commission, congressional committee, DOD, independent consultant, and USTRANSCOM studies and reports on defense transportation.

To identify potential duplication of functions among the various organizational levels, we analyzed functional, process, and support tasks according to roles and mission statements and conducted extensive headquarters and field level data collection interviews and discussions to categorize functions, processes, and tasks as hands-on, transportation information process support, and/or administrative/management. We performed the same analyses to identify whether tasks being performed at various locations had to be performed at those specific locations.

To determine whether any actions are necessary to ensure a successful reengineering of defense transportation that will improve efficiency and reduce costs, we reviewed data and reports on USTRANSCOM and Office of the Secretary of Defense reengineering efforts, plans, and status; reviewed and analyzed reports regarding successful reengineering techniques and guidelines for assessing reengineering efforts; contacted and interviewed various defense transportation system commercial cargo carriers and customers, including representatives of the U.S. European Command, the U.S. Air Force-Europe, the U.S. Army-Europe, the U.S. Central Command USTRANSCOM Liaison Officer, and the Army-Air Force Exchange Service. We also reviewed data and documents from these representatives to obtain a broad base perspective of carrier and customer comments regarding the current defense transportation system structure and results.

Work was conducted at:

- Headquarters, USTRANSCOM, Scott Air Force Base, Illinois;
- Headquarters, AMC, Scott Air Force Base, Illinois;
- AMC, 15th Air Force, 60th Aerial Port Squadron, Travis Air Force Base, California;
- Headquarters, MTMC, Falls Church, Virginia;
- MTMC-Eastern Area, Bayonne, New Jersey;
- MTMC-Western Area, Oakland Army Base, California;
- MTMC-1302nd Major Port Command, Oakland, California;
- MTMC-Europe, Rotterdam, Netherlands;
- MTMC-1318th Medium Port Command, BENELUX, Rotterdam, Netherlands;
- MTMC-Wheeler Army Air Field, Hawaii;
- MTMC-1316th Medium Port Command, Yokohama, Japan;
- Headquarters, MSC, Navy Yard, Washington, D.C.;
- MSC-Atlantic, Bayonne, New Jersey;
- MSC-Pacific, Oakland, California;
- MSC-Far East, Yokohama, Japan;
- MSC-Europe, London, United Kingdom;

- Headquarters, U.S. European Command, Stuttgart, Germany;
- USTRANSCOM Liaison Officer for the European Command, Stuttgart, Germany;
- Headquarters, U.S. Army-Europe, Heidelberg, Germany;
- Headquarters, U.S. Air Force-Europe, Ramstein Air Base, Germany;
- Office of the Deputy Chief of Staff for Logistics, Army Transportation, Washington, D.C.;
- Office of the Assistant Commander for Navy Material Transportation, Navy Supply Systems Command, Arlington, Virginia;
- Office of the Deputy Chief of Staff for Installations & Logistics, U.S. Marine Corps, Arlington, Virginia;
- Office of the Assistant Executive Director for Transportation, Defense Logistics Agency, Alexandria, Virginia;
- Army-Air Force Exchange Service-Pacific Transportation Center, Oakland, California;
- Army-Air Force Exchange Service-Atlantic Transportation Center, Bayonne, New Jersey;
- Office of the Joint Chiefs of Staff, Washington, D.C.; and
- offices of commercial ocean carriers—American President Lines, Ltd., and Sea-Land Service, Inc., Oakland, California.

We also contacted and interviewed members of the private sector responsible for reengineering efforts within corporate entities, and collected and analyzed reengineering information they provided as it relates to defense transportation. For example, we spoke with officials from American President Lines and Aetna Casualty and Life. We also reviewed and analyzed pertinent logistics, reengineering, and transportation studies prepared by major consulting firms, and discussed observations and conclusions in those reports with representatives responsible for preparing them.

DOD provided written comments on a draft of this report. These comments are presented and evaluated in chapters 2, 3, and 4, and are reprinted in appendix IV. DOD also provided other detailed comments for our consideration. We considered these comments and made changes as appropriate to our report.

We conducted our work between August 1994 and September 1995 in accordance with generally accepted government auditing standards.

Defense Transportation Costs Are High

Customers using defense transportation services pay substantially more than USTRANSCOM's component commands do for basic commercial transportation. What USTRANSCOM's component commands charge their customers to meet transportation requirements often far exceeds, sometimes two and three times, what the commands pay to obtain those services. Our analysis of the key cost factors making up these charges is discussed in chapter 3.

Defense Transportation Process

Defense transportation services for sustainment and, to a somewhat lesser extent, deployment are for the most part arranged through and provided by the commercial transportation sector. Most cargo is shipped on commercial U.S.-flag ships, moved pursuant to contracts with commercial ocean carriers, and is loaded on and off their ships by private sector or carrier labor. To the extent the cargo can be shipped in intermodal containers, it is shipped in containerized service.

The rates the component commands charge for services must cover the expenses USTRANSCOM incurs for the commercial services plus all other direct, indirect, and overhead expenses. For example, MSC is responsible for negotiating the rates and terms of carriage with the ocean carriers and paying their invoices. MTMC is responsible for booking service for individual shipments, preparing shipment documentation, clearing customs, and supporting MSC's payment processes. Each must develop a budget and determine how much to charge its customers for each service to be provided.

The rates are developed before the component commands know what the commercial carriers will charge DOD. Moreover, in any given year, the rates may include a factor to recover losses or return profits from prior years' operations. Consequently, rates for a given shipping route from year to year may double or be cut in half even when the commercial carriers' rates showed little or no change.

Customer Charges Are Substantially Higher Than the Amount the Component Commands Pay the Commercial Carriers

Our analysis of the component commands' charges for arranging cargo movements on many of DOD's high-volume, container cargo routes shows that the charges, in total, are substantially higher—from 24 to 201 percent higher—than the amounts carriers charge DOD. Although the charges of an individual component command may not always be higher than what the component command pays the carriers, the total (combined MSC/MTMC) charges for each shipment in our analysis were substantially higher than DOD's carrier costs.

We developed a number of case examples that illustrate the high costs customers pay. (See table 2.1.) They were based on charges for typical DOD shipments, each consisting of general (dry) cargo, 47 measurement tons each, transported in commercial carrier 40-foot containers, at rates for the low-cost carrier on each route, during the first quarter of fiscal year 1995.¹ The examples reflect charges MSC and MTMC bill their customers for the costs they incur for negotiating rates with commercial carriers used to move DOD shipments; for contracting with the underlying carrier and paying its charges; and for the administrative expenses incurred to document the shipments and handle booking, manifesting, receiving, and customs clearance. The MSC/MTMC charges are compared with the costs of the underlying carrier—in each case, the low-rate carrier. It should be noted that we did not add to the carrier charges any costs that the customers might otherwise incur were they to do the work themselves or have some third party do it for them because customers may not have needed such services for every shipment or they may have been able to provide such services at little or no additional cost using existing traffic management staff. A more comprehensive set of examples is shown in appendix I.

¹In these and other examples, DOD was contractually obligated to pay a charge based on full use of the container—here, 59 measurement tons. MSC bases its charges to its customers on the same minimum. MTMC bases its charges on the actual tonnages, without a minimum.

Chapter 2
Defense Transportation Costs Are High

Table 2.1: Examples Comparing Carrier Costs With Amounts Charged to USTRANSCOM Customers

A. Port-to-Port Shipment Cost Comparisons (no local drayage at origin or destination)^a

Example A.1

From: U.S. East Coast (any port in range)
To: Europe (any port in range)

Cost of low-rate carrier: \$1,552.88

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 112 percent

Example A.2

From: U.S. West Coast (any port in range)
To: Korea (any port in range)

Cost of low-rate carrier: \$1,280.89

Amount charged by USTRANSCOM: \$3,815.07 (breakdown:
MSC: \$2,486.85; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 198 percent

B. Port Area-to-Port Area Shipment Cost Comparisons (local drayage at origin and destination)

Example B.1

From: Military Ocean Terminal, Bayonne, N.J.
To: Bremerhaven, Germany

Cost of low-rate carrier: \$1,712.18

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 92 percent

Example B.2

From: Military Ocean Terminal-Bay Area, Oakland, Calif.
To: Pusan, Korea

Cost of low-rate carrier: \$1,267.32
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,815.07 (breakdown:
MSC: \$2,486.85; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 201 percent

C. Inland Point-to-Inland Point Shipment Cost Comparisons (line-haul transportation at origin and destination)

Example C.1

From: Mechanicsburg, Pa.
To: Frankfurt, Germany

Cost of low-rate carrier: \$2,380.65
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 38 percent

(continued)

Example C.2

From: Defense Distribution Depot Red River, (Texarkana), Tex.

To: Kaiserslautern Germany

Cost of low-rate carrier: \$2,711.05

Amount charged by USTRANSCOM: \$3,616.98 (breakdown:
MSC: \$2,545.85; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 33 percent

Example C.3

From: Lathrop, Calif.

To: Seoul, Korea

Cost of low-rate carrier: \$1,723.39
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,815.07 (breakdown:
MSC: \$2,486.85; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 121 percent

^aDrayage is any required transportation of the container within a port area or commercial zone, by truck or rail, to or from the ship.

MSC and MTMC move or handle other types of shipments, such as in other sized containers, in noncontainerized service, or in import service. The charges for these moves will vary accordingly. However, most DOD cargo moves as general cargo, in containerized export service, in 40-foot containers, making the examples in the table representative of DOD shipments.

Agency Comments and Our Evaluation

DOD partially concurred with our findings. DOD acknowledged the difference between the defense transportation system and private industry charges. It attributed the difference to readiness/mobilization and overhead costs for the entire defense transportation system, which was designed to support both peacetime and mobilization/wartime transportation. According to DOD, peacetime, industrial policy, and readiness/mobilization costs are not always severable; and, if all readiness/mobilization costs were excluded, the difference between defense transportation costs and private industry charges would be reduced. It further pointed out that billing rates are established 18 months prior to budget execution. Such stabilized rates are affected by accumulated operating result factors, which can result in lower, or higher, charges for some movements.

We basically agree with DOD's comments. With regard to the last comment, our report acknowledges that individual component command charges

were on occasion lower than the underlying transportation costs. However, it is the total cost that the customer pays that is of concern. Regardless of what the underlying transportation cost is, the customer is always billed more to cover the costs for the excessive defense transportation infrastructure, as well as the costs associated with maintaining a mobilization/readiness capability.

Major Factors That Drive High Defense Transportation Costs

Major factors that drive USTRANSCOM's defense transportation costs higher are (1) USTRANSCOM's fragmented and inefficient organizational structure and management processes and (2) the need to maintain a mobilization capability. Separate processes are a product of separate commands. Much of DOD cargo today moves intermodally, by air, land, and sea transport. However, USTRANSCOM retains an outdated and inefficient, modally oriented, organizational structure, with many collocated facilities. In fiscal year 1994, USTRANSCOM's total expenses for defense transportation services were \$5.6 billion. Neither USTRANSCOM nor the component commands, however, collect financial information in a manner that allows actual and total cost of the organizational structure to be developed. Mobilization and readiness requirements are also key cost drivers, but again, financial information is not collected and reported in a manner that clearly distinguishes the associated costs for these factors.

Fragmented Management Processes and Inefficient Organization Structure Drive Defense Transportation Costs Higher

Factors driving costs of defense transportation higher include (1) the costs associated with having fragmented transportation processes, (2) multiple organizational elements to implement these processes, (3) component command organizational structure that requires duplicative administrative support at multiple locations and maintenance of personnel in locations where they may no longer be necessary to support intermodal transportation processes. Fragmentation refers to the fact that no one organization has responsibility for all aspects of traffic management or is able to meet customers' needs regardless of transportation mode. This situation reflects the fact that management processes were developed independently of each other. Although USTRANSCOM was established to consolidate functions within one organization, because various component commands retain modal responsibilities, fragmentation remains, particularly with such areas as negotiating rates to move cargo, shipment routing, documenting shipments for control and payment, and customer billing.

Rate Negotiation Process Divided Among Multiple Units

The rate negotiation process is inefficient and not designed to facilitate customer services. USTRANSCOM employs five separate systems and strategies for negotiating rates, and each system reflects a particular service's approach to procurement. Accordingly, it can take as many as five separate USTRANSCOM units to negotiate the rates for a single shipment. Thus, a customer may need to contact five separate units to get all the rates needed to move a single shipment. As a result, the customer often experiences delays in getting needed services and may become interested

in circumventing the system. Circumvention may be to the customer's immediate advantage but not advantageous to DOD overall. Moreover, separate negotiation units add more people and costs to the system.

The following are various types of shipments and the units used for negotiating the rates.

- For domestic continental United States (CONUS) freight shipments, and the CONUS portion of international shipments not moving as part of a through-intermodal move, MTMC's Office of the Deputy Chief of Staff for Operations, which has a staff of about 20 traffic management specialists, negotiates for land transportation, inland waterway transportation, and less-than-plane load air transportation with U.S. motor carriers, railroads, freight forwarders, barge carriers, and air cargo companies.
- For international freight shipments, MSC's Central Technical Activity, Contracts and Business Directorate and its staff of 36, who are primarily contracting specialists, negotiate for ocean transportation with ocean carriers.
- For foreign transportation, MTMC's overseas commands, such as MTMC-Europe, Directorate of Inland Theater Transportation, negotiate for land, inland waterway, and air rates, as required, in their areas of responsibilities.
- For stevedore and terminal services, MTMC's Office of the Principal Assistant Responsible for Contracting, with a staff of seven contracting specialists, negotiates contracts with port interests. Other units negotiate for such services overseas.
- For personal property shipments, another part of MTMC's Office of the Deputy Chief of Staff for Operations, which has a staff of about 10 traffic management specialists, negotiates household goods and unaccompanied baggage freight rates for CONUS land and international water and air transportation with through-bill-of-lading commercial moving van companies and freight forwarders. MTMC's overseas commands also negotiate rates with overseas movers and forwarders for intratheater personal property movement.

Shipment Routing Is Separated Along Modal Lines

Customers cannot go to one, single unit within USTRANSCOM to obtain information on carriers and routing for all modes or for the movement of a particular shipment through several modes. Instead, customers must deal with multiple organizations and offices. To the customers, this adds time, causes delays, and is inconvenient. Moreover, the fragmentation adds more people to the organizational structure than needed.

First, for domestic CONUS shipments, MTMC is responsible for providing information to customers requiring routing advice. Generally, this information is provided to installation transportation offices and others, through the CONUS Freight Management system. This system is intended to be a comprehensive freight management information system to standardize and automate freight traffic management by providing the capability to perform cost evaluations, select the best value carrier, and perform prepayment audits of government bills of lading.¹

Second, for international shipments, MTMC provides the routing in consultation with MSC that has negotiated the movement contract. The sealift cargo routing/booking and contract administration functions were performed by MSC, but in October 1981, following the Harbridge House, Inc., study, these functions were transferred to MTMC. MSC still retains oversight over contractual provisions requiring certain minimum allocation of cargo to other than the low-cost carriers on certain ocean liner trade routes and over the statutory regulations governing the use or nonuse of U.S.-flag ocean carriers.

Third, for personal property shipments, MTMC has routing systems separate from its cargo routing systems to route shipments within CONUS and to and from overseas locations.

AMC Aerial Port Operations also handles airlift shipment routing/carrier selection. In the first quarter of fiscal year 1995, there were 89 positions in these offices. The offices included four sections: the Cargo Management Section, the Passenger and Traffic Management Section, the Passenger Reservation Section, and the Air Transportation Traffic Negotiations Section. The Cargo Management Section develops and implements policies and procedures relative to the movement of cargo and mail to and from AMC bases and other DOD activities, overseas and domestic, by AMC organic and commercial contract aircraft. The Passenger and Traffic Management Section directs and controls the AMC worldwide traffic management program and passenger service system. The Passenger Reservation Section develops, disseminates, and implements policy and procedural guidance for establishment and operation of the worldwide AMC passenger reservation system. The Air Transportation Traffic Negotiations Section serves as the command point of contact with the commercial carriers to move DOD passengers and specified cargo.

¹A bill of lading is the document transportation officers use to procure the required commercial freight or personal property transportation. It is also used by MTMC and MSC to procure commercial ocean transportation not covered by an MSC shipping agreement or contract.

Documenting Shipments for Control and Payment Is Fragmented

Cargo documentation is a process long noted for its fragmentation. Depending on the type of move and the component command managing it, different types of documents are used. Multiple documents may be necessary to move a single shipment, but it is often confusing to customers and commercial carriers. By not using one standard system, or not using documentation standard in the private sector, customers' costs are increased. Moreover, carriers often have to set up separate systems, different from those used for their commercial business, just to service DOD.

For domestic CONUS shipments, the documentation system is managed by MTMC using government bills of lading. In fiscal year 1994, DOD moved more than 1.2 million shipments, at a cost of nearly \$600 million, under the government bill of lading system.

The documentation system used for international shipments is a combination of Military Standard Transportation and Movement Procedures and the government bill of lading system. Most international cargo shipments move under the Military Standard Transportation and Movement Procedures system that uses DOD-unique documents, such as the Transportation Control and Movement Documents and ocean cargo manifests. Because this system is unique to DOD, commercial carriers must set up a system only for DOD if they want its business. A portion of the international cargo program, shipments moving to and from Hawaii, Guam, and Puerto Rico, and shipments by foreign-flag carriers, uses the government bill of lading system. In fiscal year 1994, DOD moved 7.5 million measurement tons² of freight, at a cost of \$735 million, using the Military Standard Transportation and Movement Procedures system, and about 0.9 million measurement tons of cargo, at a cost of \$106 million, using the government bill of lading system.

For personal property shipments, both domestic and international, DOD uses the government bill of lading system. The documentation system, however, is separate from the cargo documentation system. In fiscal year 1994, DOD spent \$540 million for international personal property shipments.

Customer Billing Process Is Also Fragmented

DOD has no single customer billing policy, procedure, or system for defense transportation. Customers receive a bill from each component command for each mode of transportation, rather than a single intermodal bill from

²A measurement ton is a unit of volume, 40 cubic feet.

only one component. Consequently, when a noncontainerized freight shipment moves from some interior point in the United States to an interior point overseas, a customer pays for the services USTRANSCOM has provided in five parts. For example, for one shipment, a customer may have one charge related to shipping cargo to the port of embarkation, a second charge for MTMC's port handling, a third charge for MSC's ocean service, a fourth charge for MTMC's custom clearance and receipt of cargo overseas, and a fifth charge for line-haul transportation overseas to final point of destination. Separate billing systems are inefficient, adding people and cost, and confusing to customers who pay for the inefficiencies.

The billing process for different shipments is as follows.

- For domestic CONUS shipments and shipments destined overseas but not part of a through-container move, there is no reimbursement billing per se, because the Defense Finance and Accounting Service pays the carriers' charges citing the customers' own appropriations. MTMC's administrative expenses related to these shipments are paid to MTMC in lump sum, not shipment-by-shipment.
- For international shipments, customers reimburse MTMC and MSC for the services. Customers have to pay MTMC twice, once for the booking and documentation service at origin and again for clearing customs overseas and managing the shipments through to final point of destination. Customers also pay MSC for the ocean and related drayage or inland line-haul services.
- For the overseas portion of an international shipment not part of a through-container move, there is no reimbursement billing per se, because the local theater finance office pays the carriers' charges citing the customers' own appropriations.
- If the movement of cargo or passengers requires AMC organic or arranged commercial airlift capability, customers reimburse AMC for the services.

Multiple Organizational Elements Also Drive Costs Higher

Another major factor driving higher costs is the organizational structure. The February 1995 USTRANSCOM DBOF budget justifications submitted to the Congress show USTRANSCOM's costs for fiscal year 1994 as \$5.614 billion. Table 3.1 shows a breakdown by component command.

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Table 3.1: USTRANSCOM Costs

Dollars in millions	
Component command	Fiscal year 1994 costs
MTMC	\$410
MSC	1,735
AMC	3,469
Total	\$5,614

The figures shown represent all costs, contracted transportation and port handling/terminal services; expenses for salaries and wages, travel, supplies, and equipment; contracted services, such as data processing; payments to other federal agencies, such as the Defense Finance and Accounting Service; maintenance to facilities; depreciation for capital assets; expenses for the headquarters of USTRANSCOM; general and administrative expenses; and overhead. In fiscal year 1994, USTRANSCOM spent about \$1.2 billion for salaries and wages of civilian and military personnel.

Because there are three component commands, there are many instances of staff performing work in the same functional area. We focused our work on MTMC and MSC as examples because they basically have similar organizational structures. However, as noted earlier in this chapter, AMC also has staff performing transportation functions in areas similar to MTMC and MSC, such as shipment routing and billing.

Current Organization

The organizational charts for MTMC and MSC, with numbers of staff authorized, are shown in appendix II. In summary, MTMC has

- 1 headquarters office;
- 1 field operating activity office;
- 3 subordinate command headquarters offices;
- 2 subordinate command, subcommand headquarters offices;
- 4 major port command offices;
- 14 medium port command offices;
- 6 port detachments;
- 1 river terminal;
- 1 outport;
- 4 ocean cargo clearance authority offices;
- 5 ocean cargo booking offices;
- 1 overseas inland theater transportation directorate;
- 2 privately owned vehicle processing centers;

- 2 regional storage management offices; and
- 2 Army garrisons.

It has an authorized staff of 3,511, including 329 military personnel and 3,182 civilians.

MSC, for its strategic sealift, or DBOF-T, mission, has

- 1 headquarters office;
- 1 central technical activity office;
- 4 subordinate command headquarters offices;
- 3 subordinate command, subarea offices;
- 8 MSC port offices;
- 3 MSC detachment offices;
- 1 subordinate command representative office; and
- 4 MSC unit or Fast Sealift Squadron offices.

It has an authorized staff (DBOF-T only) of 362, including 69 military personnel and 293 civilians.

Collocated Activities

Many MTMC and MSC offices are located at the same site or in close proximity to each other. Of the 25 MSC offices related to its DBOF-T mission around the world, 24 are collocated, or in close proximity to MTMC offices. Some of these offices are shown in table 3.2.

Table 3.2: Examples of Collocated or Closely Located Offices

MTMC	MSC (staff numbers are the authorized positions for the DBOF-T mission only)
Headquarters office in the Washington, D.C., area, with a staff of 261.	A headquarters office in Washington, D.C., with a staff of 96.
A subordinate command office in Bayonne, N.J., with a staff of 402.	A subordinate command office in Bayonne, N.J., with a staff of 39.
A subordinate command office in Oakland, Calif., with a staff of 295.	A subordinate command office in Oakland, Calif., with a staff of 31.
A field operating office in Washington, D.C., and other locations with a staff of 611. ^a	A field operating office, called the Central Technical Activity, in Washington, D.C., supporting all of MSC, with a staff of 51.
An European command office in the Netherlands, with a staff of 85.	An European command office in the United Kingdom, with a staff of 43.
A Pacific command office in Hawaii, with a staff of 49.	MSC has a Pacific command office in Japan, with a staff of 19.

^aApproximately 390 are physically located in the Washington, D.C., area. The rest are located at area command or other MTMC sites.

Duplicative Staff

Many administrative activities are duplicated between MTMC and MSC. Each command has its own headquarters command, subordinate commands, field operating agencies, and field offices with their own administrative functions. Within these units, personnel are responsible for the same or similar administrative functions. For example, each command has staff assigned to carry out public affairs, internal review, and equal employment opportunity matters. Each also has units responsible for legal matters, resource management/comptroller, information management/computer services, and plans.

Resource management and comptroller personnel are responsible for developing and implementing policies, programs, and standards for using manpower and for controlling the allocation and prioritization of manpower resources. They also are responsible for (1) managing the budgetary operations of the command, including preparing and executing the budget and developing and defending the command's DBOF and, where applicable, appropriated fund budgets and (2) developing and publishing ocean terminal port handling or ocean service billing rates, after obtaining USTRANSCOM and Office of the Secretary of Defense approval. MTMC has nearly 200 personnel in the resource management and comptroller areas. MSC has 75 positions authorized for its DBOF-T mission for carrying out resource management and/or/comptroller functions.

Information management and computer service personnel are responsible for communications, automation, audio-visual, publications, and records management, including the development, testing, and fielding of systems that automate transportation functionality for the movement of deploying units and freight. MTMC has over 400 personnel in the information management and computer areas. MSC has 15 positions authorized for its DBOF-T mission for carrying out information management and computer service functions.

Plans personnel are responsible for the transportation planning necessary to support the component commands' missions related to strategic mobility and contingency readiness. MTMC has about 100 personnel involved in this area. MSC has about 25 positions authorized for its DBOF-T mission for carrying out transportation planning functions.

Extensive MTMC Port Operations and Terminal Service

MTMC maintains an extensive worldwide port structure to service DOD cargo that moves almost entirely through commercial channels. It operates 26 port and terminal facilities around the world, with more than 1,200

staff, with a support cost, based on fiscal year 1994 data, exceeding \$70 million dollars (not including contract stevedore costs).

About 3 decades ago, all transportation moved modally, meaning that transportation companies typically handled only a single mode of transportation. Trucking firms or railroads handled land transportation, steamship companies handled the ocean transportation, and air cargo companies handled air movements. Today, a single transportation company will pick up materials at the point of origin, truck them to a seaport, ship them across the ocean, and truck them to the point of destination, all as a single intermodal move.

Modal transportation required large numbers of personnel at points where cargo was transferred from one mode of transportation to another. For surface transportation (land and sea), intermodal transportation became possible when standardized containers could be transferred between modes without unpacking at transfer points. When the transportation industry began moving cargo intermodally, it required fewer personnel to transfer cargo between modes.

Today, the majority of cargo shipped by land and sea is moved intermodally in standardized containers. When cargo moves intermodally, containers are packed at the point of origin, moved by truck to the port of embarkation, loaded on a ship, unloaded at the port of debarkation, moved by truck to the point of destination, and unpacked. With intermodal movements on land and sea, fewer personnel are needed at the ports for warehousing, packaging, and loading than were required for modal movements. For example, according to transportation studies, a container port requires about 85 percent less labor than a noncontainerized (breakbulk) port. The loading and unloading of containers on ships, rail cars, and trucks are now achieved with large cranes that require much less manpower than what was required to pack and unpack crates for shipment.

MTMC still maintains a heavily staffed worldwide port infrastructure. The work performed at the ports has changed from cargo handling activities to various traffic management activities. The principal missions of MTMC units at ports are to accomplish the expeditious movement and documentation of DOD-sponsored cargo and privately owned vehicles through the military and commercial terminals and piers in the command's or unit's area of responsibility and, as assigned, cargo booking functions. Generally, these units are organized substantially the same as they were more than a

decade ago and reflect an era prior to containerization. Each has an office of the commander, an administration division, and a combination of divisions for cargo operations, cargo documentation, and traffic management. This is little different from December 1979 when MTMC began setting up its terminals in a standardized organization of no more than four divisions to provide a more streamlined, better understood structure while still preserving sufficient latitude to provide flexibility to meet local conditions.

Staff are dispersed as follows:

- 461 located in U.S. East Coast facilities,
- 88 located in U.S. Gulf Coast facilities,
- 176 located in U.S. West Coast facilities,
- 42 located in Caribbean/Central America facilities,
- 244 located in European facilities, and
- 282 located in Far East facilities.

The facilities include 4 major port commands, 14 medium port commands, 6 port detachments, 1 outport, and 1 river terminal.

USTRANSCOM's rationale for maintaining substantial numbers of personnel at ports in cargo operations and traffic management when it ships most cargo through the commercial transportation system, outside the military ports, is not entirely clear. MTMC has recognized the implications of containerization on the need for its worldwide port system. In 1975, the Commander of MTMC was quoted as saying

"The Bayonne and Oakland terminals have been outmoded by transportation distribution technology and are increasingly underutilized. The advent of containerization has had a tremendous impact on DOD and commercial cargo transportation, with many commercial facilities converting to or adding container handling equipment. In 1970, MTMC elected to move DOD container cargo through commercial container facilities on the east and west coasts, rather than install duplicate facilities at the Bayonne and Oakland terminals. The commercial facilities can meet DOD contingency and support requirements."³

The 1995 Defense Base Closure and Realignment Commission justified a recommendation to close two MTMC terminal facilities—Military Ocean Terminal, Bayonne, New Jersey; and the Oakland Army Base, California—because the normal workload at these terminals did not justify

³The Defense Transportation System: Competitor or Complement to the Private Sector?, Clinton H. Whitehurst, Jr.

continued military operation of the facilities and commercial ports could handle military cargo requirements.

Table 3.3 shows the current number of MTMC port and terminal staff by unit and location.

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Table 3.3: MTMC Port and Terminal Staff

Port/terminal unit	Office of the Commander	Administrative Division	Cargo Operations Division	Traffic Management Division	Other	Total
1301st Major Port Command, Bayonne, N.J.	6	4	26	65	5	106
MTMC Port Detachment, Baltimore, Md.	16					16
1303rd Major Port Command, Southport, N.C.	4	7	11	31	205 ^a	258
1304th Major Port Command, North Charleston, S.C.	4	7	20	28	3	62
MTMC Port Detachment, Cape Canaveral, Fla.	19					19
1314th Medium Port Command, Beaumont, Tex.	4	7	16		5	32
MTMC Port Detachment, New Orleans, La.	28					28
1302nd Major Port Command, Oakland, Calif.	3	10	39	56		108
1312th Medium Port Command, Compton, Calif.	25				2	27
1313th Medium Port Command, Seattle, Wash.	4	6	14	20		44
MTMC Port Detachment, Elmendorf Air Force Base, Alaska	5					5
1322nd Medium Port Command, Balboa, Panama	2	5	16	7		30
MTMC Port Detachment, Fort Buchanan, Puerto Rico	12					12
1318th Medium Port Command, BENELUX, Rotterdam, Netherlands	4		14	21		39
MTMC Rhine River Terminal, Mannheim, Germany	5		12	7		24

(continued)

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Port/terminal unit	Office of the Commander	Administrative Division	Cargo Operations Division	Traffic Management Division	Other	Total
1325th Medium Port Command, Bremerhaven, Germany	4	14	20	30	32	100
1320th Medium Port Command, Felixstowe, United Kingdom	3	1	5	4		13
1321st Medium Port Command, Livorno, (Camp Darby), Italy	21					21
MTMC Outport, Lisbon, Portugal ^b						
1319th Medium Port Command, Piraeus, Greece	10					10
1323th Medium Port Command, Izmir, Turkey	15					15
MTMC Port Detachment, Iskenderun, Turkey	17					17
1324th Medium Port Command, Azores	5					5
1315th Medium Port Command, Okinawa, Japan	6	18	15	30	15	84
1316th Medium Port Command, Yokohama, Japan	5	16	35	34	16	106
1317th Medium Port Command, Pusan, Korea	4	9	28	39	12	92
Total	231	104	271	372	295	1,273

^aPrimarily fire prevention, safety, security, engineering, supply, equipment operation, and maintenance personnel.

^bStaff numbers are not segregated but included with figures for the 1321st Medium Port Command.

Additional Personnel at MSC Port Sites Adds More to Infrastructure Costs

MSC, as part of its DBOF-T mission, also maintains personnel at ports around the world. It has 14 port-related offices with 50 positions authorized for its DBOF-T missions. Costs for these offices are several million dollars annually. (See table 3.4 for location of the positions.) Most of these offices are maintained primarily for Navy fleet-related missions that are funded directly by the Navy. The DBOF-T missions are secondary and include

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exercising local operational control of MSC-controlled ships in port and maintaining liaison with service, local government, and commercial activities concerned with MSC activities.

Table 3.4: MSC Port Facility Staff

Location	Number of staff^a
U.S. East Coast	
MSC-Atlantic Representative, Southport, N.C.	1
MSC Detachment Office, MSC-Atlantic, Charleston, S.C.	3
MSC Office, Port Canaveral, Patrick Air Force Base, Fla.	2
U.S. Gulf Coast	
MSC Unit, New Orleans, La.	7
U.S. West Coast	
MSC Office, San Diego, Calif.	1
MSC Office, Seattle, Wash.	5
MSC Detachment Office, MSC-Pacific, Anchorage, Alaska	1
Central America	
MSC Office, Balboa, Panama	4
Europe/Southwest Asia	
MSC Office, BENELUX, Rotterdam, Netherlands	5
MSC Office, Southwest Asia, Manama, Bahrain	2
Far East	
MSC Office, Okinawa, Okinawa, Japan	4
MSC Office, Korea, Pusan, Korea	8
MSC Detachment Office, MSC-Western Pacific, Singapore	1
MSC Unit, Diego Garcia	6
Total	50

^aNumbers are the authorized positions for the DBOF-T mission only.

Mobilization Costs Also Drive Defense Transportation Expenses Higher

Another factor driving costs higher is the need to maintain a transportation mobilization capability. Although DOD policy mandates direct appropriation funding for maintaining capability to expeditiously respond to mobilization conditions and the services do use direct appropriations to fund certain AMC and MTMC mobilization costs, other mobilization costs are passed to customers.

As discussed earlier, MTMC operates an extensive port structure, supported by more than 1,200 staff and costing over \$70 million for salaries and

wages alone in fiscal year 1994. While this structure may be needed to provide a mobilization capability, it may not be necessary to move cargo during peacetime. These ports are largely unused during peacetime because cargo moves by commercial carriers through commercial ports, although many of the personnel are actively engaged in documenting shipments and other management areas. Additionally, MSC, for some high-volume shipping routes, uses other than the low-cost carrier to maintain a mobilization capability. The costs of MTMC's port structure and MSC's use of other than low-cost carriers are paid by the customers.

DOD Policy Is Not Clear About Which Costs Should Be Funded by Direct Appropriations

While DOD's policy and procedures for funding USTRANSCOM mobilization capability are set forth in its Financial Management Regulation, this guidance does not cover all situations in which USTRANSCOM components charge their customers for costs that appear to be for mobilization requirements. The existing guidance provides:

“4. United States Transportation Command (USTRANSCOM). Because a capability must be maintained by the USTRANSCOM DBOF Transportation business area to expeditiously respond to requirements to transport personnel, material, or other elements required to satisfy a mobilization condition, direct appropriation funding will be provided for:

a. Air Mobility Command (AMC). Airlift flying hours and associated costs are based on the requirement to maintain the capability of the airlift system, including crew training (and concurrent mobilization) requirement. The airlift system training generated capacity is used by DOD to move air eligible cargo and passengers. In order to extend air eligibility and increase capacity utilization, rates are generally established to be competitive with commercial carriers. However, resulting contributed revenue does not cover the costs of operations due to the mobilization requirement. This requirement will be recorded/budgeted as follows:

(1) . . . Military personnel within the Air Mobility Command will be direct funded by a Military Personnel appropriation. Although the cost shall be recorded as a DBOF cost, it shall be recorded so that it is not required to be recovered in customer rates.

(2) The balance of the mobilization requirement costs will be funded through a direct appropriation to the Air Force and will be placed as an order with the DBOF. This will assure that revenue is reflected to offset the costs.”

Accordingly, the Air Force uses appropriated funds to reimburse the DBOF-T account an amount that it estimates will cover the difference between a calculated competitive commercial rate total and the total costs

AMC incurs in providing airlift. As a result, the amount reimbursed, which is considered an Air Force readiness cost, is not passed on to defense transportation system customers. In fiscal year 1994, the Air Force reimbursed the DBOF-T account about \$1.5 billion.

For MTMC, the guidance provides:

"b. Military Traffic Management Command (MTMC). The MTMC shall plan for and maintain a Reserve Industrial Capacity (RIC) to transport personnel resources, material and other elements required to satisfy a mobilization requirement. The costs of RIC will be funded by Army Operation and Maintenance."

Accordingly, the Army directly funded about \$52 million for readiness in fiscal year 1994, through the Reserve Industrial Capacity budget line item. However, the Army did not clearly show what this funding was used for.

No specific guidance exists for Navy support of MSC. Yet, MSC charges customers through its billing rates for what amounts to mobilization costs. MSC contractually agrees to book some cargo to other than the low-cost ocean carriers. It does this, in part, to maintain a sufficient number of ships in the maritime mobilization base to meet the continuing requirement to augment emergency sealift capacity. The additional costs for using other than the low-cost carriers are paid for by the customers.

Conclusions

Three factors drive USTRANSCOM defense transportation costs higher: process fragmentation, organizational redundancy, and mobilization requirements. In each of these areas, there are opportunities to improve effectiveness and efficiency. As discussed in chapter 4, DOD and USTRANSCOM are reengineering fragmented transportation business processes, but they are delaying organizational structure change. Recommendations relative to improvements in areas discussed in this chapter are addressed in chapter 4 in the context of our overall recommendations regarding reengineering the entire defense transportation process.

Agency Comments and Our Evaluation

DOD partially concurred with our findings. DOD acknowledged the impact of defense transportation business processes and readiness/mobilization costs on the charges DOD customers pay. It also agreed that MSC often uses other than the low-cost carrier to meet its customers' needs. DOD said that this practice serves to maintain a mobilization capacity and ensure

retention of more carriers, thereby fostering competition among the carriers and resulting in lower costs to its customers.

DOD stated that the fragmented business processes and infrastructure will be reviewed as part of its planned reengineering effort. DOD further stated that as the processes are reengineered and the infrastructure assessed, a joint, global, seamless, intermodal transportation system will emerge that emphasizes origin to destination movement and visibility, supports customer requirements, and is an integral part of the entire logistics process. DOD also stated that another objective of the reengineering effort is to separate the readiness/mobilization costs of providing peacetime transportation so that customers will pay for peacetime costs only. We agree with the stated goals of the reengineering effort and discuss it further at the end of chapter 4.

Reengineering Efforts Must Integrate Long-standing Organizational Issues to Achieve Optimum Results

Various studies, commissions, and task forces dating back as far as 1949 have recommended changes in the defense transportation system organizational structure. Both USTRANSCOM and DOD have also recognized the need for fundamental changes in defense transportation processes and structures. However, over time, recommendations to change the structure have not been implemented because several key players were reluctant to allow change. Even after its designation as the single manager of defense transportation, USTRANSCOM retained the same component command structure that existed prior to its establishment. As recently as May 1995, DOD initiated a task force to reengineer the defense transportation processes, but that task force's plan does not involve a review of organizational structure until after DOD completes all other defense transportation reengineering efforts. By delaying structural change, DOD runs the risk of superimposing reengineered processes on a fragmented, inefficient, and costly component command organizational structure. Given the long-standing reluctance to change, it is unlikely that the component commands would adopt any new processes that would necessitate changes to that structure. It is essential that DOD consider organizational structure as an integral part of its reengineering efforts if it is to achieve the optimum results.

Need for Change Recognized by DOD

Over the years, studies have recommended unifying traffic management in one organization to improve defense transportation and reduce costs. However, these recommendations were not implemented because of opposition from component commands, services, the Joint Chiefs of Staff, or the Congress. (App. III provides a history of attempts to realign defense transportation.)

In 1992, the Commander-in-Chief, USTRANSCOM, stated before the House Committee on Appropriations, Subcommittee on Defense, that moving cargo in peacetime the same way they are moved during a contingency would simplify the process. It would require no change in procedures to "gear up" for a deployment, just an increase in the level of operations. He added that the single manager assignments of the component commands—MTMC, MSC, and AMC—would be integrated into USTRANSCOM, making USTRANSCOM the single manager for all defense transportation.

Operations Desert Shield/Desert Storm deployment experience highlighted the need for centralized transportation management as the most effective and flexible way to manage and coordinate air, sea, and land movements, while retaining the ability to react quickly to changing priorities and

efficiently schedule and employ transportation resources. Studies dating back to 1949 also concluded that an integrated transportation system was a critical element of an efficient and effective transportation system. In 1986, a Blue Ribbon Commission on Defense Management (the Packard Commission) recommended establishing a single unified command to integrate global air, land, and sea transportation. This recommendation was acted upon with passage of the Goldwater-Nichols DOD Reorganization Act of 1986, which ordered the Secretary of Defense to consider creation of a unified transportation command, to include MTMC, MSC, and AMC. In 1987, the Secretary of Defense established the unified transportation command—USTRANSCOM. However, USTRANSCOM retained the same component command structure that existed prior to its establishment.

In 1994, a USTRANSCOM study, Reengineering the Defense Transportation System, The "Ought to Be" Defense Transportation System for the Year 2010, concluded that more can and must be done to better integrate traffic management and to provide more effective support, at lower cost, both in peace and war. The study found that the defense transportation system continued to be replete with redundant organizational structure and inefficient and costly processes. As a result, USTRANSCOM and the Office of Secretary of Defense are taking steps to reengineer the defense transportation system. These efforts have concluded that a fundamental restructuring of business practices and organizational structure is needed for the defense transportation system to keep pace in a volatile and resource-constrained operating environment. Both efforts include actions to improve and consolidate fragmented processes such as procurement and financial management. However, both efforts postpone any actions related to organizational structure issues until after process changes are completed. By delaying organizational structure change, DOD runs the risk of superimposing reengineered processes on a fragmented, inefficient, and costly component command organizational structure.

**Past Reasons Not to
Change Structure Not Valid
Today**

In response to a 1988 DOD Inspector General report recommendation to eliminate transportation component command headquarters and to transfer all defense transportation functions to USTRANSCOM, the command cited three reasons for not implementing the recommendation. The reasons cited were (1) by law, the services have the authority to train, equip, and manage their assigned forces; (2) addition of the peacetime mission to USTRANSCOM would detract from its primarily wartime mission; and (3) removal of the services and their departments from the resource

allocation process would significantly complicate programming and budgeting. These reasons for not reorganizing are not valid today.

First, although the services have the statutory responsibility to, among other things, train, equip, and manage their assigned forces, the Secretary of Defense is authorized under 10 U.S.C. 125(a) to transfer, reassign, consolidate or abolish any function, duty or power not vested by law in an official of DOD in order to provide more effective, efficient, and economical operation of DOD. We are not aware of any provision of law that would preclude the Secretary from exercising this authority to abolish the transportation component command headquarters.

In addition, realigning defense transportation activities under USTRANSCOM would be consistent with USTRANSCOM's current mission. At the time of its activation, USTRANSCOM was the single manager for defense transportation during war. The service secretaries retained their single manager charters over peacetime transportation functions. However, Desert Storm highlighted the disadvantages of fragmentation between wartime and peacetime transportation activities. Therefore, in 1992, DOD made USTRANSCOM the single manager for defense transportation in both peace and war.

Finally, since USTRANSCOM is the DOD financial manager for all defense transportation through the DBOF, realigning defense transportation under USTRANSCOM would create a more efficient resource allocation process. Currently, each component command develops its own DBOF-T budget submission. USTRANSCOM consolidates the separate budget submissions to create a single DBOF-T budget submission. If defense transportation activities were aligned under USTRANSCOM, there would be no need for each component to develop a separate DBOF-T budget submission.

Conclusions

The ongoing DOD and USTRANSCOM efforts to reengineer fragmented transportation processes are a step in the right direction. However, these efforts continue to delay organizational structure changes. Even these current reengineering efforts run a significant risk of reengineering processes to operate a fragmented and costly defense transportation organization. In order for any defense transportation reengineering effort to achieve the maximum improvement in processes and reduction in costs possible, it must include as an integral part changes to organizational structure.

Recommendations to the Secretary of Defense

We recommend that the Secretary ensure that the defense transportation reengineering efforts simultaneously address process and organizational structure improvements. Specifically, the reengineering efforts should confront, at a minimum,

- need for separate traffic management component command headquarters staff,
- consolidation of separate field subordinate command traffic management staff, and
- elimination of all remaining duplicative field-based subordinate command support staff.

We also recommend that the Secretary clarify which USTRANSCOM mobilization costs should be passed along to its customers. The amounts and purpose of any such costs should be contained in transportation component annual financial statements and in the budget justification statements submitted annually to the Congress.

Agency Comments and Our Evaluation

DOD generally concurred with our findings and recommendations. It indicated that it has already begun addressing our concerns and pursuing the objectives of our recommendation related to business processes and organizational improvements through its Reengineering Transportation Action Plan, established at the direction of the Deputy Secretary of Defense by memorandum of May 3, 1995. Under the plan, prepared on June 30, 1995, DOD is establishing Integrated Product Process Teams, comprised of representatives from the Military Services, Joint Staff, Defense Logistics Agency, Under Secretary of Defense (Comptroller), Under Secretary of Defense (Acquisition and Technology), Defense Finance and Accounting Service, DOD Inspector General, and USTRANSCOM. These teams are charged with developing a transportation vision, reengineering transportation processes, reengineering transportation financial management processes, and assessing the infrastructure required to support the proposed reengineered processes. The first initiative, developing a transportation vision, was completed on October 25, 1995. DOD said that the organizational structure will be assessed in concert with reengineering the business processes and the handling of readiness/mobilization costs will be reviewed by the task force.

If the Reengineering Transportation Action Plan is carried out as described and it results in a consolidated, global, seamless, intermodal transportation system that eliminates and reduces infrastructure, thereby

Chapter 4
Reengineering Efforts Must Integrate
Long-standing Organizational Issues to
Achieve Optimum Results

lowering overall system costs and charges to DOD customers, it is responsive to our concerns. As we noted earlier, however, many other DOD efforts have had similar goals but the recommended changes to the defense transportation organization were never implemented because key defense transportation interests were reluctant to allow them to occur. In the near future, we will be reviewing the results of the current reengineering initiatives to see whether DOD is successful in implementing necessary changes this time.

Comparison of Carrier Costs With Charges to Customers

Table I.1: Shipment Examples Comparing Carrier Costs With Amounts Charged to USTRANSCOM Customers

A. Port-to-Port Shipment Cost Comparisons (no local drayage at origin or destination)

Example A.1

From: U.S. East Coast (any port in range)
To: Europe (any port in range)

Cost of low-rate carrier: \$1,552.88

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 112 percent

Example A.2

From: U.S. Gulf Coast (any port in range)
To: Europe (any port in range)

Cost of low-rate carrier: \$1,552.88

Amount charged by USTRANSCOM: \$3,616.98 (breakdown:
MSC: \$2,545.85; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 133 percent

Example A.3

From: U.S. West Coast (any port in range)
To: Korea (any port in range)

Cost of low-rate carrier: \$1,280.89

Amount charged by USTRANSCOM: \$3,815.07 (breakdown:
MSC: \$2,486.85; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 198 percent

Example A.4

From: U.S. West Coast (any port in range)
To: Japan (any port in range)

Cost of low-rate carrier: \$1,280.89

Amount charged by USTRANSCOM: \$3,809.17 (breakdown:
MSC: \$2,480.95; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 197 percent

Example A.5

From: U.S. West Coast (any port in range)
To: Okinawa (any port in range)

Cost of low-rate carrier: \$2,024.29

Amount charged by USTRANSCOM: \$3,632.17 (breakdown:
MSC: \$2,303.95; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 79 percent

B. Port Area-to-Port Area Shipment Cost Comparisons (local drayage at origin and destination)

Example B.1

From: Military Ocean Terminal, Bayonne, N.J.
To: Bremerhaven, Germany

Cost of low-rate carrier: \$1,712.18

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 92 percent

(continued)

Appendix I
Comparison of Carrier Costs With Charges
to Customers

Example B.2

From: Military Ocean Terminal-Bay Area, Oakland, Calif.
To: Pusan, Korea

Cost of low-rate carrier: \$1,267.32
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,815.07 (breakdown:
MSC: \$2,486.85; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 201 percent

C. Port Area-to-Inland Point Shipment Cost Comparisons (local drayage at origin and line-haul transportation at destination)

Example C.1

From: Military Ocean Terminal, Bayonne, N.J.
To: Frankfurt, Germany

Cost of low-rate carrier: \$2,152.91

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 53 percent

Example C.2

From: Norfolk (Zone 2), Va.
To: Giessen, Germany

Cost of low-rate carrier: \$2,361.18
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 39 percent

Example C.3

From: Military Ocean Terminal-Bay Area, Oakland, Calif.
To: Yokosuka, Japan

Cost of low-rate carrier: \$1,607.16
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,809.17 (breakdown:
MSC: \$2,480.95; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 137 percent

D. Inland Point-to-Port Area Shipment Cost Comparisons (line-haul transportation at origin and local drayage at destination)

Example D.1

From: Barstow, Calif.
To: Naha, Okinawa

Cost of low-rate carrier: \$2,136.39
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,632.17 (breakdown:
MSC: \$2,303.95; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 70 percent

(continued)

Appendix I
Comparison of Carrier Costs With Charges
to Customers

E. Inland Point-to-Inland Point Shipment Cost Comparisons (line-haul transportation at origin and destination)

Example E.1

From: Mechanicsburg, Pa.
To: Frankfurt, Germany

Cost of low-rate carrier: \$2,380.65
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 38 percent

Example E.2

From: Atlanta, Ga.
To: Kaiserslautern, Germany

Cost of low-rate carrier: \$2,650.87
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,292.48 (breakdown:
MSC: \$2,221.35; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 24 percent

Example E.3

From: Defense Distribution Depot Red River, (Texarkana), Tex.
To: Kaiserslautern Germany

Cost of low-rate carrier: \$2,711.05

Amount charged by USTRANSCOM: \$3,616.98 (breakdown:
MSC: \$2,545.85; MTMC at origin: \$557.89; MTMC at destination:
\$513.24)

Percent by which total charges exceeded carrier costs: 33 percent

Example E.4

From: Lathrop, Calif.
To: Seoul, Korea

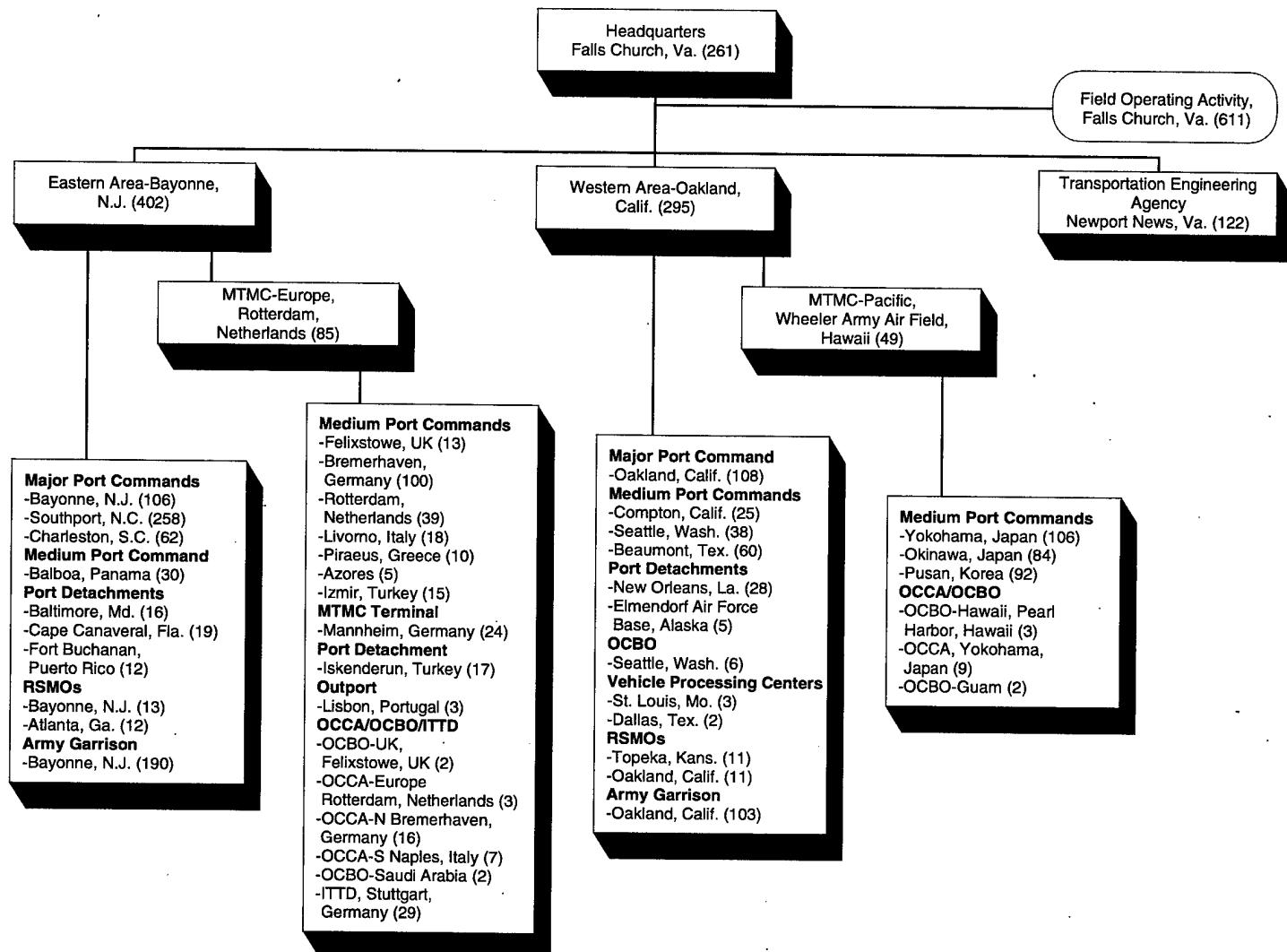
Cost of low-rate carrier: \$1,723.39
(based on carrier's single factor rate)

Amount charged by USTRANSCOM: \$3,815.07 (breakdown:
MSC: \$2,486.85; MTMC at origin: \$573.87; MTMC at destination:
\$754.35)

Percent by which total charges exceeded carrier costs: 121 percent

Component Command Organizations

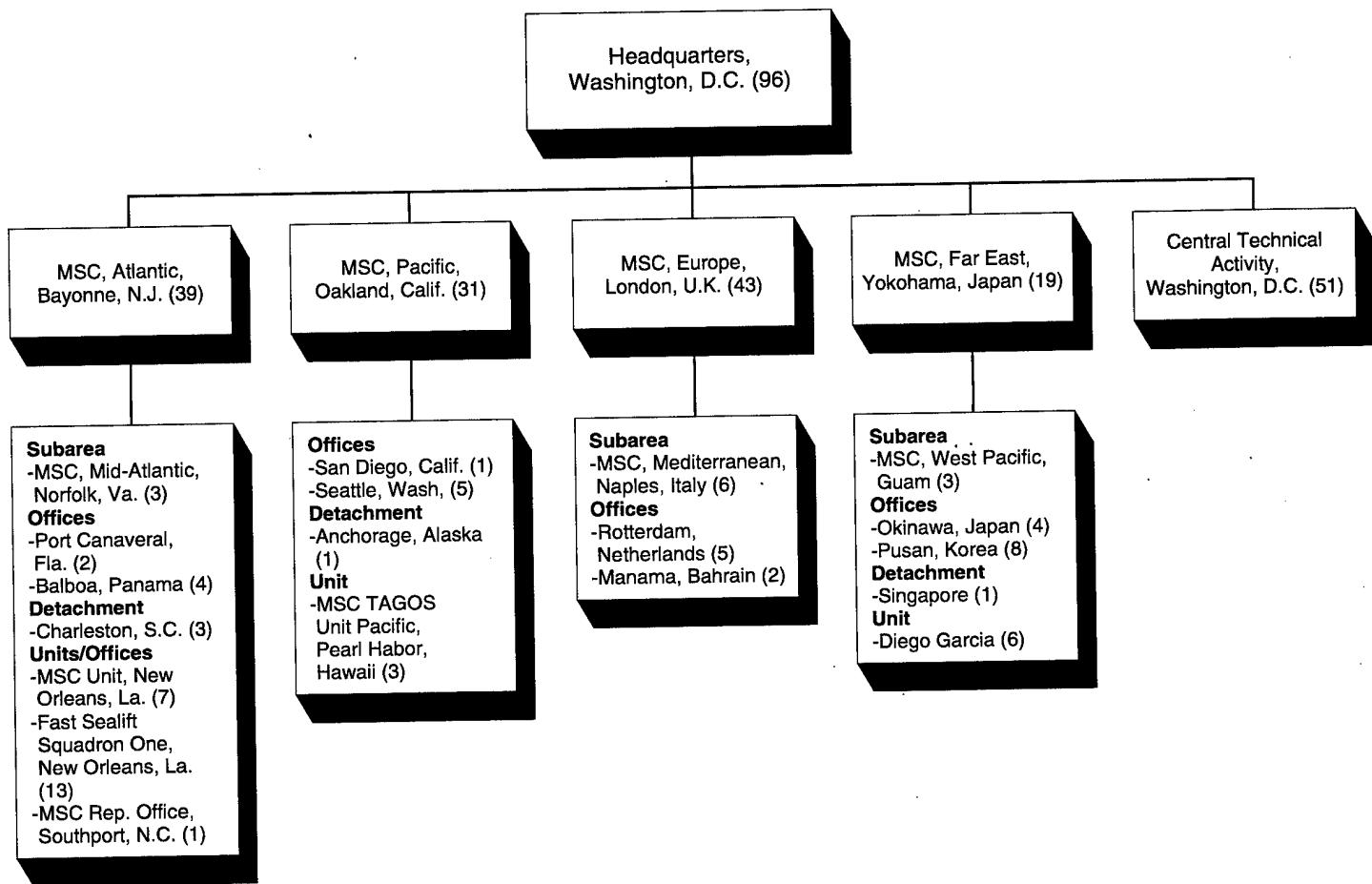
Figure II.1: MTMC (authorized staff in parentheses)



Source: MTMC.

Appendix II
Component Command Organizations

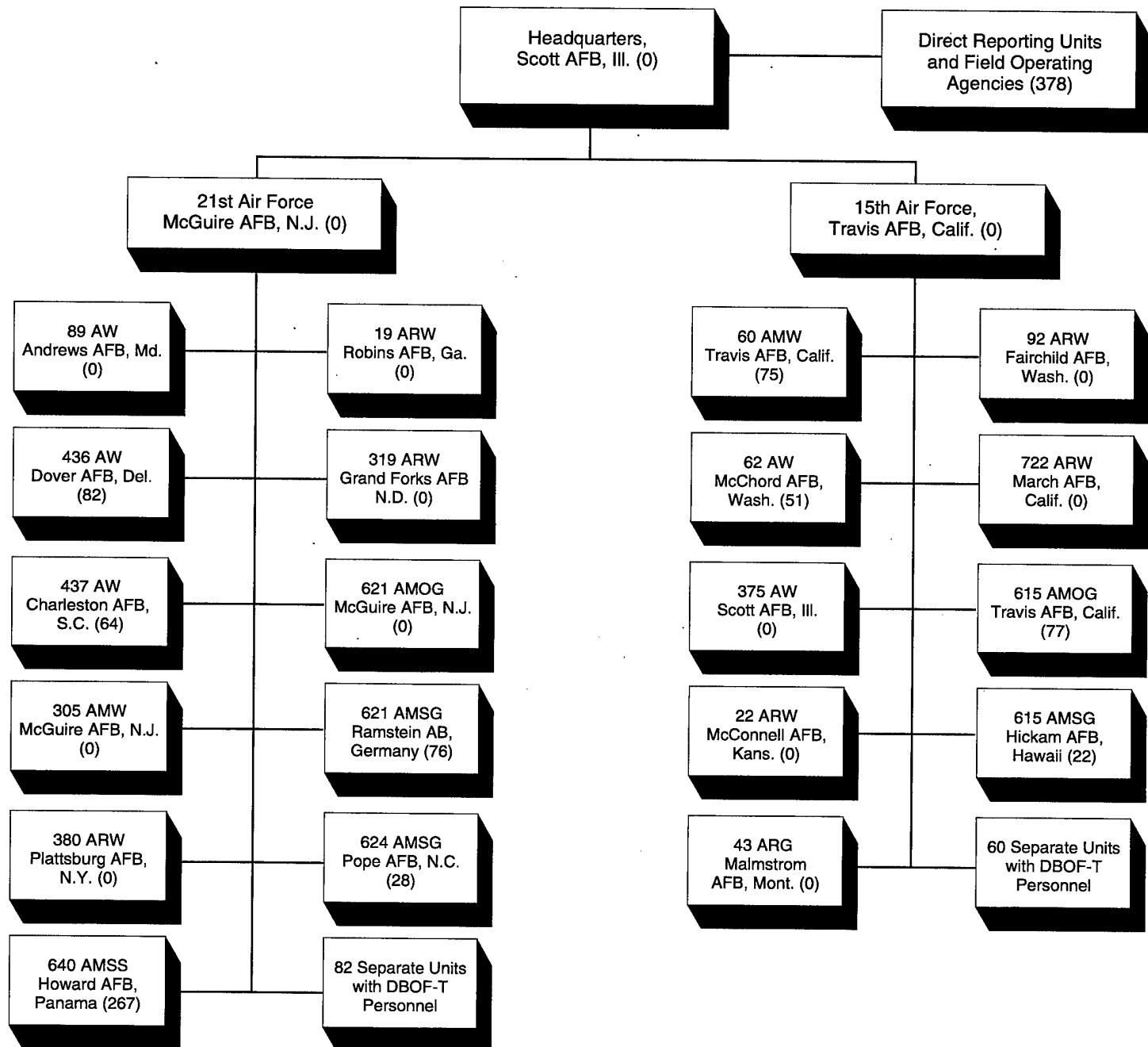
Figure II.2: MSC (authorized DBOF-T positions in parentheses)



Source: MSC.

Appendix II
Component Command Organizations

Figure II.3: AMC (authorized DBOF-T staff)



Source: AMC.

History of Attempts to Realign Defense Transportation

Proponent	Date	Action or recommendation
Department of Defense	1948	Created the Military Air Transport Service (later called the Military Airlift Command), merging the Air Force's Air Transport Command and the Navy's Naval Air Transport Service.
Commission on Organization of the Executive Branch of the Government (Hoover Commission)	1949	Concluded that government traffic management was inefficient and recommended creation of a central traffic organization.
Department of Defense	1949	Created the Military Sea Transportation Service (later called MSC), combining the ocean transport activities of the Army Transport Service and the Naval Transportation Service.
Department of Defense	1950	Established the Military Traffic Service to unify traffic service for all of the Department of Defense, but the service lacked authority to bring about consolidation of the traffic functions of different segments of the Department.
Commission on Organization of the Executive Branch of the Government (Hoover Commission)	1955	Concluded that there was a continuing lack of Department of Defense centralized cargo and passenger traffic management and identified many duplicate defense facilities and services.
Department of Defense	1956	Designated the Secretary of Army as Single Manager for Traffic Management within CONUS. Military Traffic Management Agency established to integrate existing headquarters command and field traffic management agencies of the Army, Navy, Air Force, and the Marine Corps.
Department of Defense	1961	Established the Defense Supply Agency under the direct authority of the Secretary of Defense and placed the Military Traffic Management Agency (renamed the Defense Traffic Management Service) under Agency control.
Department of Defense	1964	Returned the Defense Traffic Management Service (renamed the Military Traffic Management and Terminal Service) to the Army, with the Secretary of the Army designated Single Manager for Military Traffic, Land Transportation, and Common-User Ocean Terminals.
Blue Ribbon Defense Panel	1970	Recommended creation of a logistics command to take over the Military Traffic Management and Terminal Service and MSC traffic and terminal management functions. New command would also include the Military Airlift Command.
Department of Defense	1971	Directed a merger of the Military Traffic Management and Terminal Service and MSC into a joint Department of Defense Surface Transportation Command, effectively moving sealift functions to the Army.
Department of Defense	1971	Following opposition by the Joint Chiefs of Staff (less the Army) and hearings by a Special Transportation Subcommittee of the House Committee on Armed Services, withdrew the merger proposal.
Department of Defense	1974	Renamed the Military Traffic Management and Terminal Service, MTMC, to make it more identifiable with its mission.
Joint Chiefs of Staff (Steadman study)	1977	Examined options for consolidating defense surface transportation but concluded that status quo should be maintained, effectively keeping the air, land, and sea single managers independent under their respective services.
Surveys and Investigations staff of the House Committee on Appropriations	1979	Recommended that a Defense Traffic Management Agency be established to assume the traffic management responsibilities of MTMC and MSC.
Conference Report on the Department of Defense Appropriation Act, 1980	1979	Directed the Department of Defense to develop an implementation plan to consolidate MTMC and MSC and/or create a Defense Traffic Management Agency.

(continued)

Appendix III
History of Attempts to Realign Defense
Transportation

Proponent	Date	Action or recommendation
Department of Defense	1979	Responded to congressional report by contracting with Harbridge House, Inc., to analyze the functional and organizational relationships of MTMC, MSC, and to a limited degree, Military Airlift Command.
Harbridge House, Inc.	1980	Provided a report for the Department of Defense recommending establishment of a Defense Traffic Management Agency or a Unified Traffic Management Command comprised of MTMC and MSC.
Department of Defense	1981	Agreed to transfer MSC sealift cargo/passenger booking and related contract functions to MTMC.
Joint Chiefs of Staff	1981	Agreed that management of surface movement system could best be accomplished by integration of MTMC and MSC into a single command reporting through Joint Chiefs of Staff to Secretary of Defense.
Department of Defense	1981	Set October 1982 as goal for completing integration of MTMC and MSC.
Report of the House Committee on Appropriations, Department of Defense Appropriations Act, 1982	1981	Endorsed plan to merge MTMC and MSC.
Joint Chiefs of Staff	1982	Recommended integration of MTMC and MSC into a unified Military Transportation Command.
Department of the Navy	1982	Officials testifying before the House Committee on Armed Services indicated that they were against the planned merger.
Department of Defense Authorization Act, 1983	1982	Department of Defense was prohibited from taking any action to consolidate MTMC and MSC.
Department of Defense	1983	The Congress rejected proposal by the Department of Defense in fiscal year 1984 authorization request to repeal language prohibiting consolidation of transportation functions.
Department of Defense	1984	The Congress rejected proposal by the Department of Defense in fiscal year 1985 authorization request to repeal language prohibiting consolidation of transportation functions.
Blue Ribbon Commission on Defense Management (Packard Commission)	1986	Recommended establishment of a single unified command to integrate global air, land, and sea transportation.
Goldwater-Nichols Department of Defense Reorganization Act	1986	Ordered Secretary of Defense to consider creation of a unified command and lifted prohibition against consolidation of traffic management functions.
Department of Defense	1987	Established USTRANSCOM with operational control of defense lift forces assigned to MTMC, MSC, and Military Airlift Command during war, contingencies, and exercises.
Department of Defense Inspector General	1988	Released report recommending abolishing component command headquarters and eliminating 1,015 component command headquarters level positions.
Department of Defense	1988	Disagreed with Inspector General report.

(continued)

Appendix III
History of Attempts to Realign Defense
Transportation

Proponent	Date	Action or recommendation
USTRANSCOM reorganization task force	1990	Recommended expanding USTRANSCOM mission to include time of peace, as well as wartime. Developed charter establishing common-user lift responsibilities, including consolidating traffic management and contracting functions. Recommended establishment of a financial management office for visibility over component command industrial funds.

Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000



06 NOV 1995

(L/TP)

Mr. David R. Warren
Director, Defense Management and
NASA Issues
National Security and International
Affairs Division
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled, "Defense Transportation: Streamlining of the U.S. Transportation Command Organization is Needed," dated September 13, 1995 (GAO Code 709075, OSD Case 1023). The Department generally agrees with the report.

The detailed DoD comments addressing the report findings and recommendations are provided in the enclosure. The DoD appreciates the opportunity to comment on the GAO draft report.

Sincerely,

Roy R. Willis
Roy R. Willis
Acting Deputy Under Secretary
of Defense (Logistics)

Enclosure



Appendix IV
Comments From the Department of Defense

GAO DRAFT REPORT - DATED SEPTEMBER 13, 1995
(GAO CODE 709075) OSD CASE 1023

"DEFENSE TRANSPORTATION: STREAMLINING OF THE U.S. TRANSPORTATION
COMMAND ORGANIZATION IS NEEDED"

* * * * *

DEPARTMENT OF DEFENSE COMMENTS

- **FINDING A: Defense Transportation Costs Are High.** The GAO reported that Defense transportation customers pay substantially more than the basic commercial transportation charges the United States Transportation Command's (USTRANSCOM) components pay. The GAO used examples to show the disparity between costs for underlying commercial transportation and what its components—the Military Sealift Command (MSC) and the Military Traffic Management Command (MTMC)—charge customers. (p. 2, pp. 3-4, pp. 9-18/GAO Draft Report)

DOD RESPONSE: Partially concur. The difference in charges is partially related to readiness/mobilization and overhead costs for the entire Defense Transportation System (DTS), which was designed to support both peacetime and mobilization/wartime transportation. Peacetime, industrial policy, and readiness/mobilization costs are not always severable. If all readiness/mobilization and overhead costs were excluded, the difference between DTS and private industry charges would be reduced. In addition, because some DTS rates are stabilized, actual costs are not fully representative for some of the movements. Since billing rates must be established eighteen months prior to execution, stabilized rates are a benefit for customers as the rates allow customers to program and budget their costs to minimize execution shortfalls. The stabilized rates are affected by accumulated operating result factors, which can result in lower, or higher, charges for some movements.

The DoD recognizes that our Defense Transportation business processes have a direct impact on the charges our customers pay. On May 3, 1995, the Deputy Secretary of Defense issued a memorandum directing the reengineering of the DoD transportation processes. A task force was established and a Reengineering Transportation Action Plan was completed on June 30, 1995. The Reengineering Transportation Action Plan established Integrated Product Process Teams (IPPTs) to address four major initiatives. The teams are comprised of representatives from the Military Services, Joint Staff, Defense Logistics Agency (DLA), Under Secretary of Defense (Comptroller), Under Secretary of Defense (Acquisition and Technology), Defense Finance and Accounting Service, DoD Inspector General, and USTRANSCOM. Specifically, they are charged with developing a transportation vision, reengineering transportation acquisition processes, reengineering transportation financial management processes, and assessing the infrastructure required to support the proposed reengineered processes. The first product, a Transportation Vision for the Twenty-first Century, was developed and released

Now on pp. 3-4 and
15-19.

October 25, 1995, by the Under Secretary of Defense (Acquisition and Technology). The Vision will be used by the other teams to focus their efforts and to shape future transportation policies and programs. The objective of the teams is to integrate transportation processes and systems with logistics, deployment, personnel, acquisition, and other functional processes and systems to provide uniform and seamless support to the Total Force.

- **FINDING B: Fragmented Traffic Management Processes, Modally-Oriented Organizational Structure, and Mobilization Costs are Major Factors Driving Transportation Costs.** The GAO reported that transportation processes, such as rate negotiation, shipment routing, cargo documentation, and financial management, are fragmented, resulting in multiple hand-offs of information, extensive checking and control. The GAO explained that the customer is often billed by five separate activities within the component commands to reimburse the components for their specific modal services. The GAO indicated that separate organizations require separate staffs and separate supporting infrastructure, the costs of which are also ultimately included in customer charges. The GAO further indicated that many times people of two or more components, performing identical functions are located at the same sites. The GAO pointed out that MSC, for some high volume shipping routes, often uses other than the low-cost carrier to maintain a mobilization capability. The GAO concluded that ultimately, USTRANSCOM customers pay for maintaining this capability through the rates charged by MTMC and MSC. (pp. 2-5, pp. 19-38/ GAO Draft Report)

Now on pp. 3-5 and
20-36.

DOD RESPONSE: Partially concur. The DoD agrees that MSC often uses other than the low-cost carrier in order to maintain a mobilization capability; however, this policy also ensures retention of more carriers, thereby fostering competition among the carriers and resulting in lower charges to DoD customers. The DoD policy was established as a result of a Sealift Procurement and National Security study conducted jointly by the DoD, the Office of Management and Budget, the Federal Maritime Commission, and the Maritime Administration, with industry participation. The policy requires MSC contracts, on certain major routes, where there are two U.S. Flag carriers, to limit the percentage of cargo for any one carrier to seventy-five percent. On major routes, where there are three or more U. S. Flag carriers, the limit is fifty percent of the cargo for any one carrier. The DoD, under its Reengineering Transportation Action Plan, is addressing fragmentation of transportation business processes. As the processes are reengineered and the infrastructure assessed, the result will be a joint, global, seamless, intermodal transportation system which emphasizes origin to destination movement and visibility, supports customer requirements, and is an integral part of the entire logistics process.

- **FINDING C: Reengineering Efforts Must Integrate Longstanding Organizational Issues to Achieve Optimum Results.** The GAO reported that the existing transportation component command structure has resulted in separate and isolated transportation processes along Military Service lines and perpetuated inefficient transportation processes. The GAO pointed out that while recent studies

Now on pp. 3-6 and
37-41.

have recommended unifying traffic management in one organization to improve Defense transportation and reduce costs, those recommendations were not implemented due to opposition from either component commands, Military Services, the Joint Chiefs of Staff, or the Congress. The GAO noted that, even after its designation as the single manager for Defense transportation, USTRANSCOM has retained the same component command structure that existed prior to its establishment. The GAO concluded that, while the DoD has begun reengineering the Defense Transportation System to improve its processes and reduce costs, it is not concurrently looking at how the organizational structure should be redesigned. The GAO further concluded that the DoD runs the risk of superimposing reengineered processes on a fragmented, inefficient, and costly component command organizational structure. (p. 3, pp. 5-6, pp. 39-44/GAO Draft Report)

DOD RESPONSE: Partially concur. As noted in the draft report, two of the MTMC major ocean terminals have been approved for base closure and are expected to close in FY 1998/1999. In addition, both Continental United States MSC Area Commands are scheduled for realignment as a result of base closures. These changes will contribute towards organizational streamlining and infrastructure reductions. One of the initiatives of the Reengineering Transportation Action Plan is an assessment of the infrastructure required to support the transportation acquisition and transportation financial management processes identified for reengineering. These initiatives are being conducted in concert to ensure the most effective and efficient organizational structure is in place to support the proposed reengineered processes.

RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct that the Defense transportation reengineering efforts simultaneously address process and organizational structure improvements. The GAO indicated that the reengineering efforts should confront at a minimum the following issues:
 - the need for separate traffic management component command headquarters staff;
 - consolidating separate field subordinate command traffic management staff; and
 - eliminating all remaining duplicative field-based subordinate command support staff. (p. 14, p. 44/GAO Draft Report)

Now on pp. 6 and 40.

DOD RESPONSE: Concur. The DoD is already pursuing the objectives of this recommendation through the DoD Reengineering Transportation Action Plan. The Action Plan is a result of a May 3, 1995 Deputy Secretary of Defense memorandum directing the reengineering of DoD transportation processes. The Reengineering Transportation Action Plan, completed June 30, 1995, established Integrated Product Process Teams (IPPTs) to address four major initiatives. The teams are comprised of representatives from the Military Services, Joint Staff, DLA, Under Secretary of Defense (Comptroller), Under Secretary of Defense (Acquisition and Technology), Defense Finance and Accounting Service, DoD Inspector General, and USTRANSCOM. Specifically, the teams are charged with developing a transportation vision, reengineering transportation acquisition processes, reengineering transportation financial management processes, and assessing the infrastructure required to support the proposed reengineered processes. The first product, a Transportation Vision for the Twenty-first Century, was developed and released October 25, 1995, by the Under Secretary of Defense (Acquisition and Technology). The Vision will be used by the other teams to focus their efforts and to shape future transportation policies and programs.

- **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense clarify which USTRANSCOM mobilization costs should or should not be passed along to its customers. The GAO further recommended that the amounts and purpose of any such costs should be contained in transportation component annual financial statements and in the budget justification statements submitted annually to Congress. (p. 14, p. 44/GAO Draft Report)

DOD RESPONSE: Partially concur. The charter of the DoD Reengineering Transportation Financial Management Working Group is to define USTRANSCOM's

Now on pp. 6 and 40.

Appendix IV
Comments From the Department of Defense

primary mission readiness/mobilization costs and separate these costs from the costs of providing peacetime transportation services to DoD customers. The objective will be to fund readiness/mobilization costs from direct appropriations with customers paying peacetime costs for transportation services.

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